

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance, Resources and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

Demand for temporary accommodation has created a significant budget pressure in 2023/24. Although purchase of property by the Council for temporary accommodation through the capital programme will bring down spending, there is a risk of continued overspends in 2024/25.

The Council has set a balanced budget for 2024/25, but there will be a challenge in delivering savings to offset the budget gap projected for subsequent years.

There are a number of risks associated with the delivering the capital programme. In particular, providing the subsidy necessary to deliver affordable housing depends on the Council continuing to receive central government support.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the risk assessment of the Budget Strategy provided at Appendix A.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	11 April 2024

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1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance, Resources and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance, Resources and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance, Resources and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance, Resources and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance, Resources and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance, Resources and

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Business Improvement
Information Governance	No implications.	Director of Finance, Resources and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance, Resources and Business Improvement
Public Health	None identified.	Director of Finance, Resources and Business Improvement
Crime and Disorder	None identified.	Director of Finance, Resources and Business Improvement
Procurement	None identified.	Director of Finance, Resources and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance, Resources and Business Improvement

2. INTRODUCTION AND BACKGROUND

- 2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

Current position

- 2.2 The Council produced a balanced budget for both revenue and capital income and expenditure for 2023/24. With final results for the year expected shortly, it is anticipated that there will be a small overspend. Projections prepared at the end of quarter 3 indicated an overspend of £239,000. This was the net effect of an overspend of £990,000 on temporary accommodation, offset by a number of underspends, including a reduced level of borrowing costs owing to slippage in the capital programme and a higher level of interest income from holding cash. Although numbers in temporary accommodation have stabilised, there was an increase in the overspend in quarter 3 owing to provisions made against irrecoverable rent.
- 2.3 The continued high cost of temporary accommodation has been reflected by building an additional £450,000 into the budget for 2024/25. This would not cover the current level of expenditure, given projected overspends in 2023/24. However, it is expected that spending will reduce as the council brings homes it has purchased for temporary accommodation into use.
- 2.4 There is nevertheless a risk that numbers in temporary accommodation could increase, which would lead to an overspend in 2024/25. This is captured within the budget risk register heading 'Failure to contain expenditure within agreed budgets'.

Future position – 2024/25 and subsequent years

- 2.5 A Medium Term Financial Strategy was agreed by Council in February 2024. This set out the likely position for the 5-year planning period. The Strategy document explained that the external environment is challenging, with the UK economy facing low growth prospects and continued high inflation. This limits the scope for any increase in public expenditure, which in turn will affect the Council, because it gives the government little scope to flex the funding framework for local government to alleviate financial pressures caused by expenditure growth. Any assistance is likely to benefit upper tier or single tier authorities, not lower tier authorities like Maidstone.
- 2.6 Financial projections, based on a realistic scenario of continued high inflation and limited funding flexibility, were included in the MTFS and showed a budget gap of £925,000 for 2024/25 and significantly higher figures in subsequent years. These projections assumed that Council Tax income is increased by the maximum possible given the referendum limit, and fees and charges are increased in line with inflation. In all cases, the budget gap would be greater if these measures were not taken.

- 2.7 The budget risk register includes the risks 'Inflation rate is higher than 2% government target' and 'Constraints on council tax increases', which reflect the fact that the referendum limit for 2024/25 of 3% was lower than the rate of inflation. Inflation is now falling, which makes it appropriate to downgrade these risks.
- 2.8 Savings measures to close the gap were included in the budget agreed by Council at its budget setting meeting on 21st February 2024. The Council therefore has a balanced budget for 2024/25, but there remains a gap in subsequent years which needs to be addressed over the coming year. This will require savings to be identified, but there is a risk to the deliverability of any such savings, hence the risk 'planned savings are not delivered'.

Capital Programme

- 2.9 The Council has an ambitious capital programme, which includes plans to deliver 1,000 new affordable homes over the next ten years. Funding this will require an increase in long term debt from £9 million today to around £300 million in 2028/29, with the revenue cost of capital increasing accordingly.
- 2.10 There are a number of risks associated with the capital programme which potentially will impact the revenue account, to the extent that capital expenditure is abortive or leads to the write-down of capital investments:
- Construction prices increasing
 - Contractor failure / liquidation
 - Availability / cost of finance.
- 2.11 Currently the Council has locked in £80 million of its future borrowing requirement at the relatively low rate of 2.89%. Capital expenditure will need to be carefully monitored to ensure that expenditure above and beyond the amount to be funded from this initial £80 million meets the prudential affordability requirement. This in turn depends on the future availability and cost of finance. Whilst interest rates are projected to reduce compared to their current rates, the speed of the reduction is uncertain.
- 2.12 This risk has been captured in the risk register under the heading 'Capital Programme cannot be funded'. Given the broader risks around the capital programme, it is proposed to change this wording to 'Capital Programme cannot be delivered given available budgets and funding'.
- 2.13 There is a specific requirement in relation to the Affordable Housing programme to provide the necessary subsidy for tenants. The requirement for a subsidy arises because affordable housing (ie housing to be let at a rent of no more than 80% of the Local Housing Allowance) does not achieve the rate of return that is required on Council investments in order to satisfy the prudential borrowing rules.
- 2.14 Maidstone Council will benefit in 2024/25 from unallocated central government grants in the form of New Homes Bonus (£1.5 million) and Funding Guarantee (£3.6 million). Maidstone is using this additional funding to provide the necessary subsidy inherent in the 1,000 Affordable

Homes programme. If this level of funding is not sustained in the future, the Council’s ambitions to deliver affordable housing may have to be modified.

2.15 In light of the risks described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
G	Inflation rate is higher than 2% government target	Inflation is falling and is projected to reduce to less than 2%	Impact – major (no change) Likelihood – possible (reduced)
I	Constraints on council tax increases	Inflation is falling and is projected to reduce to less than 2%	Impact – major (no change) Likelihood – possible (reduced)

1.1 Details are set out in Appendix A, which lists the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee’s request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks’ financial magnitude. The information is also set out in the form of a bar chart.

1.2 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

2. AVAILABLE OPTIONS

2.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council’s service planning and/or be reflected in the developing Medium Term Financial Strategy.

2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2 – It is recommended that the Committee notes the risk assessment.
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4. RISK

- 4.1 Risk is addressed throughout this report, so no further commentary is required here.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey has been carried out for the 2024/25 budget and the results have been reported to Members as part of the budget setting process.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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7. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks
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8. BACKGROUND PAPERS

None.